

Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 LIMA 8906

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SUBJ: OMB BUDGET CUT FOR FY 1977

JOINT STATE/AID MESSAGE

FOR ROGERS AND KLEINE FROM AMBASSADOR AND FINBERG

REF: STATE 253483

1. A. WE STRONGLY BELIEVE THAT NATIONAL GNP PER CAPITA IS TOO GROSS AN INDICATION ON WHICH TO BASE ASSISTANCE DECISIONS. AID'S TARGET GROUP, BY LEGISLATIVE MANDATE AND AGENCY POLICY, IS AIMED AT THOSE PERSONS, RATHER THAN NATIONS, WITH LOW PER-CAPITA INCOMES, INADEQUATE CALORIC INTAKE, LOW LIFE EXPECTANCY, HIGH INFANT MORTALITY, ETC.

B. TO APPLY A MACRO-ECONOMIC MEASURE ONLY, AS SUGGESTED BY REFTEL, WOULD DEPRIVE ASSISTANCE TO MILLIONS OF RECIPIENTS WHO OTHERWISE MEET THE POVERTY TEST. IN PERU, FOR EXAMPLE, THE WORLD BANK ANALYSIS CITED BY AID IN ITS REPORT OF JULY 1975 TO THE CONGRESS ON IMPLEMENTATION OF THE "NEW DIRECTIONS" INDICATED THAT THERE WERE 4.2 MILLION PERUVIANS WITH PER-CAPITA INCOMES OF LESS THAN \$150. AVAILABLE STATISTICS SUGGEST THAT THE NUMBER OF PERUVIANS WITH LESS THAN \$300 ANNUAL INCOME IS AT LEAST EIGHT MILLION, OR OVER ONE-HALF OF PERU'S POPULATION.

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C. THE GREAT MASSES OF THE VERY POOR IN PERU ARE TO BE FOUND IN THE AGRICULTURAL SECTOR, WHERE OVER 40 PERCENT OF POPULATION MAKES A PRECARIOUS LIVING. THE BULK OF AGRICULTURAL POPULATION IS IN THE SIERRA AREA WHERE SIX MILLION PEOPLE LIVE (SOMEWHAT LESS THAN HALF OF THE COUNTRY'S TOTAL POPULATION), MOST OF WHOM ARE INDIANS. THE DIET OF SIERRA INDIANS IS EXTREMELY UNBALANCED, LACKING IN PROTEIN AND NUTRITIONAL VALUE. INFANT MORTALITY IS HIGH (ABOVE THE 78/1000 NATIONAL AVERAGE) AND LIFE EXPECTANCY LOW. A 1972 GOP MINISTRY OF LABOR SAMPLE OF THE SIERRA AREA CALCULATED A TOTAL AVERAGE PER CAPITA INCOME (INCLUDING ALL SOURCES OF INCOME) OF UNDER \$220 PER YEAR; LITERACY RATE AT ONLY 19 PERCENT; AND SCHOOL ENROLLMENT REPRESENTED ONLY SOME 34 PERCENT OF THE 5-14 YEARS AGE GROUPS.

2. A. THE ECONOMIC AND SOCIAL REFORMS INTRODUCED BY THE GOP ARE AIMED AT REDISTRIBUTION OF WEALTH, EQUAL ACCESS TO QUALITY EDUCATION, BETTER HOUSING, AND IMPROVED HEALTH CONDITIONS OF THIS POPULATION. THE GOP'S AGRARIAN REFORM PROGRAM HAS ALREADY RESULTED IN THE DISTRIBUTION TO FARM WORKERS OF OVER FIVE MILLION HECTARES OF A TARGETED 11 MILLION HECTARES.

B. IN EDUCATION, THE REFORM IS DESIGNED TO IMPROVE THE RELEVANCY OF THE CURRICULUM, IMPROVE ACCESS (PARTICULARLY OF THE RURAL POPULATION), AND INCREASE THE OPPORTUNITIES OF THOSE SPEAKING NATIVE TONGUES TO ACQUIRE SPANISH CAPACITY AND BECOME PART OF THE ECONOMIC MAINSTREAM. SIMILARLY IN HEALTH, THE EMPHASIS IS ON RURAL COMMUNITY HEALTH SERVICES AND ACCESSIBILITY TO APPROPRIATE HEALTH CARE OF ALL REGARDLESS OF THEIR ABILITY TO PAY. IN INDUSTRY, WHILE MUCH THAT IS HAPPENING MAY BE QUESTIONABLE FROM THE STANDPOINT OF PRODUCTIVITY, WORKERS NOW HAVE GREATER PARTICIPATION IN MANAGEMENT AND A GREATER SHARE OF PROFITS. USAID'S PROGRAM SUPPORTS GOP EFFORTS TO REACH THE POOR MAJORITY. EXAMPLES INCLUDE THE SMALL-FARMER SIERRA IRRIGATION PROJECT, SUPPORT FOR AGRICULTURAL CENTRALES, THE PROPOSED AGRO-INDUSTRIAL MANAGEMENT TRAINING PROGRAM, BILINGUAL AND NON-FORMAL EDUCATION PROJECTS AND THE INPROMI COMMUNITY HEALTH AND RESPONSIBLE PARENTHOOD ACTIVITY.

3. THERE ARE, OF COURSE, SIGNIFICANT FOREIGN POLICY AND
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POLITICAL ARGUMENTS WHICH SUPPORT THE CONTINUATION OF ASSISTANCE TO PERU. THE CURRENT LEADERSHIP OF THE GOP IS MODERATE IN ORIENTATION WHEN COMPARED WITH ITS PREDECESSOR, THE VELASCO GOVERNMENT. AS SUCH IT IS OPEN TO CRITICISM AND ATTACK FROM BOTH THE RIGHT AND LEFT, AS IT ATTEMPTS TO IMPLEMENT BASIC SOCIAL AND ECONOMIC REFORMS. MOREOVER, THE GOP OVER THE NEXT TWO OR THREE YEARS WILL FACE SERIOUS DOMESTIC AND BALANCE OF PAYMENT PROBLEMS, FOOD SCARCITIES, INFLATION AND WAGE

DEMANDS, ETC. IN THIS CONTEXT IT IS CRITICALLY IMPORTANT THAT THE USG DIRECTLY DEMONSTRATE ITS CONCERN FOR AND SUPPORT OF THE MORALES BERMUDEZ GOVERNMENT. HAVING GIVEN GRANT AND LOAN ASSISTANCE TO THE MORE RADICAL GOVERNMENT OF VELASCO, NOW TO TERMINATE SUPPORT PRECIPITOUSLY TO THE MORALES BERMUDEZ GOVERNMENT WOULD BE MISINTERPRETED BY THOSE IN THE GOP WELL DISPOSED TOWARDS THE U.S. AND VERY LIKELY WOULD LEAD TO GREATER RELIANCE ON THE SOCIALIST COUNTRIES, WITH RESULTANT POLITICAL AND ECONOMIC IMPLICATIONS.

4. THE AID PROGRAM SERVES TO DEMONSTRATE U.S. SUPPORT FOR NEEDED REFORMS, AND PROVIDES OPPORTUNITY TO MAINTAIN DIALOGUE WITH GOP OFFICIALS REGARDING PERU'S FUTURE COURSE OF ECONOMIC AND POLITICAL DEVELOPMENT. MOREOVER, AID FINANCING PROVIDES INCENTIVE TO GOP TO CHANNEL ITS THINKING AND RESOURCES INTO NEW TYPES OF DEVELOPMENT PROGRAMS BY PROVIDING INCREMENTAL RESOURCES FOR PROGRAMS AIMED AT IMPROVING EQUITY AND PRODUCTIVITY OF POOREST GROUPS WITHIN PERUVIAN SOCIETY.

5. IN SUM, THERE IS A SUBSTANTIAL POPULATION IN PERU IN DESPERATE NEED OF ASSISTANCE, THE GOP'S POLICIES AND SELF-HELP EFFORT AIMED AT PROVIDING GREATER EQUITY WARRANT SUPPORT, AND THE OPPORTUNITIES FOR DESIGNING AND IMPLEMENTING PROGRAMS CONSISTENT WITH THE CONGRESSIONAL MANDATE CLEARLY EXIST. TO FAIL TO PROVIDE BILATERAL ASSISTANCE TO HELP MEET THESE NEEDS WOULD BE TO IGNORE HUMAN SUFFERING; RAISE GOP CONCERN REGARDING SINCERITY OF U.S. INTEREST IN SUPPORTING BASIC WIDESPREAD REFORMS WHICH U.S. HAS ESPoused OVER PAST 15 YEARS; AND WOULD DENY A REFORMIST GOVERNMENT THE SUPPORT AND ENCOURAGEMENT WHICH WOULD HELP IT TO REALIZE ITS GOAL.

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C O N F I D E N T I A L SECTION 2 OF 2 LIMA 8906

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JOINT STATE/AID MESSAGE

FOR ROGERS AND LKEINE FROM AMBASSADOR AND FINBERG

6. A. THE IFI'S ARE CLEARLY THE MAJOR SOURCE OF CAPITAL TRANSFERS FOR THE DEVELOPING WORLD

THEIR REPLENISHMENTS WILL BE ACCOMPLISHED. EVEN ASSUMING THE CAPITAL TRANSFER POSITION OF THE IFI'S, IN OUR OPINION THE IFI'S ALONE ARE NOT IN A POSITION TO PROVIDE ALL THE NECESSARY ASSISTANCE TO COUNTRIES SUCH AS PERU. THE INNOVATIVE APPROACHES NECESSARY TO REACH THE POOR MAJORITY ARE SMALL IN SCALE BUT REQUIRE EXTENSIVE PLANNING AND MONITORING. NEITHER THE IBRD NOR THE IDB IS ORGANIZED AT THE PRESENT TIME TO DEVELOP AND SUPPORT SUCH PROGRAMS. IN PARTICULAR, THE IFI'S ARE UNABLE TO MEET THE TA REQUIREMENTS SUCH PROGRAMS ENTAIL. ALSO THE SMALL AVERAGE SIZE OF SUCH INNOVATIVE PROJECTS TENDS TO LIMIT THE INTEREST OF THE IFI'S IN THESE ENDEAVORS.

B. MOREOVER, REVIEW OF THE IFI PORTFOLIOS INDICATES A CONTINUING PREDOMINANCE OF BASIC INFRASTRUCTURE: ROADS, PORTS, WATER AND SEWERAGE, LARGE IRRIGATION SYSTEMS, ETC. BECAUSE OF THEIR ORGANIZATIONS AND PRIORITIES, IFI ASSISTANCE BASICALLY ASSUMES THAT, OVER TIME, TRICKLE-DOWN EFFECTS OF THEIR CONVENTIONAL PROJECTS WILL REACH THE POORER POPULATION ELEMENTS. VERY FEW OF THEIR PROJECTS ADDRESS THIS TARGET POPULATION DIRECTLY.

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C. IN THE CASE OF PERU, CAPITAL TRANSFERS BY IFI'S HAVE BEEN VERY LIMITED. THE IBRD HAS MADE ONLY ONE LOAN IN THE LAST TWO YEARS AND NO DISBURSEMENTS HAVE YET RESULTED FROM THIS LOAN. THE IDB HAS BEEN SOMEWHAT MORE ACTIVE; AGAIN, HOWEVER, DISBURSEMENTS HAVE BEEN RATHER SLOW. OF THE SEVERAL LOANS UNDER CONSIDERATION BY THE IDB FOR '76 AND '77 ONLY \$15 MILLION IN '76 AND \$20 MILLION IN '77 ARE AIMED AT POOR MAJORITY TARGET GROUPS AND APPEAR REASONABLY FIRM. ONLY ONE WORLD BANK LOAN OF \$20 MILLION PLANNED FOR 76/77 WILL BE OF DIRECT BENEFIT. ORGANIZATIONAL LIMITATIONS, LIMITED TECHNICAL ASSISTANCE AVAILABILITIES, AND REQUIREMENTS OF AVERAGE LOAN SIZE CURRENTLY PRECLUDE IFI'S TARGETING DIRECTLY ON THE POOR MAJORITY. AID ON THE OTHER HAND IS UNIQUELY ORGANIZED TO CONCENTRATE ON THIS GROUP.

7. IN CONCLUSION, COMBINING THE DEVELOPMENT/HUMANITARIAN AND POLITICAL ARGUMENTS, THE REASONS FOR CONTINUATION OF

ASSISTANCE TO PERU APPEAR OVERWHELMING. ASSUMING SATISFACTORY RESOLUTION OF MARCONA ISSUE, THEY ARGUE FOR MODERATE INCREASE OF ASSISTANCE OVER THE SHORT TERM, RATHER THAN TERMINATION./ RESTRICTING BILATERAL AID TO HAITI AND BOLIVIA, WITH THEIR VERY LIMITED ABSORPTIVE CAPACITIES, WOULD BE LITTLE UNDERSTOOD AND LESS APPRECIATED BY OTHER NATONS SUCH AS PERU WITH SUB-STANTIAL NUMBERS OF POOR, WITH REFORMIST GOVERNMENTS, WITH SEVERE ECONOMIC PROBLEMS, AND WITH NATURAL RESOURCES OF CONSIDERABLE VALUE TOR THE UNITED STATES.

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